Joint Committee on Taxation
October 25, 1989
JCX-69-89

Definition of Tar Sands for Nonconventional Fuels Production Credit[1]

Present Law

Tar sands are eligible for the production credit for fuels produced from nonconventional sources, i.e., other than oil, natural gas, and coal. The credit is available for fuels produced from a well drilled, or a facility placed in service, before January 1, 1991, and for production before January 1, 2001.

In a technical advice memorandum dated June 20, 1989, which was issued in response to a definitional issue raised in the course of the resolution of a taxpayer refund claim, the Internal Revenue Service determined that the proper definition of tar sands for purposes of the section 29 production credit is a definition promulgated by the Federal Energy Administration in Ruling 1976-4. This definition is as follows:

> The several rock types that contain an extremely viscous hydrocarbon which is not recoverable in its natural state by conventional oil well production methods including currently used enhanced recovery techniques. The hydrocarbon-bearing rocks are variously known as bitumen-rocks, oil impregnated rocks, oil sands, and rock asphalt.

Explanation of Proposal

The proposal would amend section 29 to apply the following definition for nonconventional fuels production credit purposes:

> Any consolidated or unconsolidated rock (other than coal, oil shale, or gilsonite) that either: (1) contains a hydrocarbonaceous material with a gas free viscosity, at original reservoir temperature, greater than 10,000 centipose, or (2) contains a hydrocarbonaceous material and is produced by mining or quarrying.

Effective Date

The proposed change would be made effective for taxable years ending after December 31, 1979.

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[1]This issue was added to the list of items scheduled for a hearing on October 26, 1989, before the Ways and Means Subcommittee on Select Revenue Measures. See JCX-66-89 and JCX-68-89, for a description of the other items scheduled for the hearing.

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